ERNST & YOUNG

■ Ernst & Young LLP
Ernst & Young Tower
One Renaissance Square
2 North Central Avenue
Suite 2300
Phoenix, Arizona 85004

■ Phone: 602 322 3000
www.ey.com

November 30, 2004

Mr. Michael Hutchinson
City Manager
City of Mesa
20 East Main Street
Mesa, Arizona 85211

Summary of Findings and Recommendations

Dear Mr. Hutchinson:

In accordance with our engagement letter, Ernst & Young LLP ("E&Y") has performed a retail market analysis to assist you in your analysis of the market for a proposed retail project on a 203-acre site located at the Loop 202 Freeway and Dobson Road in Mesa, Arizona. The analysis takes into consideration two scenarios – Scenario 1 with the minimum build out as stipulated in the development agreement, and Scenario 2, which is assumed at maximum build-out per the developer's plans. Scenario 1 assumes a minimum build out of 105,000 SF in Phase I, anchored by a 55,000 SF movie theater. This phase will open by July 1, 2007. Phase II will have a minimum of 600,000 SF of retail space and two auto dealerships. Phase II will be anchored by a minimum 150,000 SF Bass Pro Shop and an additional 100,000 SF anchor tenant. Scenario 2 assumes a maximum build out of 1.28 million SF and three auto dealerships. The report was completed for the City of Mesa ("City" or "Client").

We conducted a retail market analysis and tax impact study for a big box retail concept with pad sites. This analysis includes a discussion of the size and scope of various retail uses, based on our procedures. Our key findings and conclusions are presented at the end of the attached report, and are subject to the assumptions and limiting conditions which follow this letter.

The market analysis for the following retail uses was analyzed:

- Big-Box Retailers
- Retail Center
- Movie Theaters
- Auto Mall

Bass Pro Shop is an integral part of the project, as it will generate a regional draw given the history of its performance in other communities. We did not conduct a demand analysis for the auto mall as it was not part of this study and have assumed the proposed dealerships are feasible. We did, however, estimate the potential tax revenues generated by the dealers based on the development plan.

This report is intended solely for the use of City of Mesa and should not be used by those who did not participate in formulating of the procedures.

We have relied on statements of fact furnished to us by others and have performed reasonable verification of the facts, except as specifically set forth in our report. Our work product has been based on estimates, assumptions and information provided by you, and on other information developed from our research and knowledge of the market. The sources of information and bases of the estimates and assumptions are stated in the report.

Finally, neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, loan agreement or other agreement or document without our prior written approval, which will require that we perform additional procedures, nor can it be used for any purpose other than as expressly stated in this report.

We appreciate the opportunity to provide advisory services to the City of Mesa and look forward to continuing our working relationship. If you have any questions regarding the report, please call Steve Klett at (602) 322-3637.

Sincerely,

Ernst + Young LLP

A. PHASE I DEVELOPMENT AGREEMENT

- **Developer Obligations**

  - The Construction and Opening for Business of the Minimum Improvements:
    - A movie theater with: (i) at least sixteen (16) screens; and (ii) a building area of not less than 55,000 square feet.
    - At least 50,000 square feet of general and specialty merchandise retail, including restaurants.
    - Public Improvements (i.e., City Improvements) mainly on the east side of Dobson Road, including reconfiguring medians, installation of utilities, two new traffic signals.

  - Minimum Improvements must be completed and open for business by July 1, 2007 or the Developer does not receive any economic incentives and the Agreement terminates.

- **Economic Incentives**

  - After the Construction and Opening for Business of the Minimum Improvements, the City reimburses the Developer for the following costs:
    - The City fees (i.e., developer impact, planning permit fees, and building permit fees) paid by the Developer, up to a cap of $500,000.
    - The cost of the Public Improvements, up to a cap of $ 1 million.

  - NO SALES TAX REBATE: Developer is not entitled to receive any of the sales tax generated from the Phase I development.

B. PHASE II DEVELOPMENT AGREEMENT

- **Developer Obligations**

  - OPTION A: The Construction and Opening for Business of the following Minimum Improvements:
    - At least 350,000 square feet of general and specialty merchandise retail.
    - A Bass Pro Shops Outdoor World, with a minimum of 150,000 square feet.
    - An anchor tenant, with a minimum of 100,000 square feet.
    - At least two Vehicle Dealerships located on at least 22 acres. The primary focus of the Dealerships will be the sale of new vehicles.
    - Public Improvements to Dobson Road, 8th Street, Alma School Road, and a new public road from Alma School Road to the eastern limits of the project.

  - OPTION B: The Construction and Opening for Business of the following Minimum Improvements:

- A Bass Pro Shops Outdoor World, with a minimum of 150,000 square feet.
- An anchor tenant, with a minimum of 100,000 square feet.
- Public Improvements to Dobson Road, 8th Street, Alma School, and a new public road from Alma School to the eastern limits of the project.
- Sufficient additional improvements so that the entire Project generates $270 million of revenue that is subject to sales tax for at least one fiscal year (July 1-June 30).

- Minimum Improvements must be completed and open for business by July 1, 2010 or the Developer does not receive economic incentives (except, possibly $1 million for public improvements upon commencement of construction for the Bass store) and the Agreement terminates;
  - <u>**EXCEPT:**</u>
    - **If the Developer has constructed and opened for business:**
      - The Bass Store
      - The Anchor Tenant
      - The Public Improvements
      - Sufficient Additional improvements so that the entire Project generates **$200 million** of revenue for at least one fiscal year

      then the Developer has until July 1, 2012 to meet the requirements of either OPTION A, or OPTION B.

    - If the Developer does not meet the requirements of either Option A or Option B before July 1, 2012, but the Project has maintained an average of $200 million of revenue from 2010-2012, then:
      - The Developer receives the economic incentives, but does not receive any interest on the $30 million sales tax incentive amount.

- <u>**Economic Incentives for Development of Project**</u>
  - After the actual commencement of construction of the Bass Store, the City reimburses the Developer:
    - The cost of the Public Improvements, up to $1 million.
  - After the Construction and Opening for Business of the Minimum Improvements:
    - The City reimburses the Developer for the following costs:
      - The City fees (i.e., developer impact, planning permit fees, and building permit fees) paid by the Developer, up to a cap of $1.8 million.

- The cost of the Public Improvements, up to a cap of $2 million (total reimbursement of Public Improvements - $3 million).

- The Developer is entitled to a rebate of a portion of the City's 1% transaction privilege tax (but not the City's "quality of life" transaction privilege tax) as follows:

  - CONSTRUCTION SALES TAX: 100% of the construction sales tax, up to a cap of $700,000, minus the cost of the City's archeological survey of the Property.

  - RETAIL SALES TAX:
    - Developer receives 50% and the City receives 50% of the 1% retail sales tax from the Project, until the City receives $4.8 million (i.e., Developer's reimbursable costs), plus interest at 7%.
    - After the City receives $4.8 million, plus interest, the Developer receives 75% and the City receives 25% of the retail sales tax from the project, until the Developer receives $5 million, without interest, and $30 million, plus interest at 7%.

  - LIMITATIONS ON DEVELOPER'S SALES TAX REBATE:
    - The Developer's right to receive the sales tax rebate terminates 20 years after the City first receives retail sales taxes from the Project.
    - The total amount of interest that the Developer may receive is capped at $25 million.
    - The Developer is not entitled to receive the sales tax rebate unless the Minimum Improvements (including the Bass Store) are completed and open for business by the performance date.

  - NO SHARING OF CITY'S QUALITY OF LIFE SALES TAX: The Developer is not entitled to receive any of the City's quality of life transaction privilege tax.

- **<u>Economic Incentives to Attract Vehicle Dealerships</u>**

  - Beginning 10 years after the City first receives retail sales taxes from the Project and continuing for 10 years:
    - The Developer receives 75% of the City's 1% retail sales tax on taxable revenue generated from Vehicle Dealerships. The Developer may assign this rebate to the Dealerships.
    - This sales tax rebate is in addition to the $35 million (plus 7% interest on $30 million) sales tax rebate the Developer receives for development of the Project.

- **Bass Store Requirements**
  - LEASE: Developer must provide the City with evidence that it has entered into a lease with the Bass store within 1 year of the Agreement.
  - EXCLUSIVE AREA: If, during the time the Developer is receiving the sales tax rebate, a second Bass store is opened within 30 miles from the Mesa Bass store, the Developer shall pay to Mesa:
    - The difference between:
      - the sales tax the City should have received from sales at the Mesa Bass store, assuming the Mesa Bass store generated the same amount of revenue it generated the year before the second store opened (plus an inflation factor of 3%), and
      - the sales tax the City actually received from sales at the Mesa Bass store.
  - BASS STORE CLOSURE: If, during the time the Developer is receiving the sales tax rebate (after the Minimum Improvements are completed), the Mesa Bass store closes and does not reopen within 1 year, the Developer shall pay to Mesa at the end of each fiscal year:
    - The greater of:
      - any amount received by the Developer as a result of the Bass store closure, or
      - 2% of the average gross sales of the Bass store during the 2 fiscal years prior to the store closing (or the actual time the store was open if the Bass store was not open for 2 fiscal years).

MINIMUM SCENARIO - SUMMARY OF CITY TAX BENEFITS

PHASE I

	30 Year Total Cash Flow			Discounted Cash Flow - 7%		
	Developer	City	Total	Developer	City	Total
Privilege Tax	$0	$8,662,123	$8,662,123	$0	$2,942,419	$2,942,419
Occupancy Tax	0	593,664	593,664	0	195,966	195,966
Construction Tax	0	64,838	64,838	0	64,838	64,838
Quality of Life Tax	0	2,330,156	2,330,156	0	800,806	800,806
Permit & Impact Fees	500,000	102,200	602,200	500,000	102,200	602,200
Total Phase I Revenues	**$500,000**	**$11,752,981**	**$12,252,981**	**$500,000**	**$4,106,228**	**$4,606,228**
Percentage	4.1%	95.9%	100.0%	10.9%	89.1%	100.0%

City is paid back it's $1.5 million developer incentive in present value dollars in 10 years.

PHASE II

	30 Year Total Cash Flow			Discounted Cash Flow - 7%		
	Developer/Auto	City	Total	Developer/Auto	City	Total
Privilege Tax	$53,944,678	$73,484,985	$127,429,663	$26,089,514	$21,358,439	$47,447,953
Occupancy Tax	0	2,598,033	2,598,033	0	941,665	941,665
Construction Tax	482,950	0	482,950	482,950	0	482,950
Quality of Life Tax	0	32,627,662	32,627,662	0	12,218,142	12,218,142
Permit & Impact Fees	1,800,000	438,100	2,238,100	1,800,000	438,100	2,238,100
Total Phase II Revenues	**$56,227,628**	**$109,148,779**	**$165,376,408**	**$28,372,464**	**$34,956,347**	**$63,328,811**
Percentage	34.0%	66.0%	100.0%	44.8%	55.2%	100.0%

City is paid back it's $4.8 million developer incentive in present value dollars in 4 years.

PHASE I & II

	30 Year Total Cash Flow			Discounted Cash Flow - 7%		
	Developer/Auto	City	Total	Developer/Auto	City	Total
Privilege Tax	$53,944,678	$82,147,109	$136,091,787	$26,089,514	$24,300,858	$50,390,372
Occupancy Tax	0	3,191,696	3,191,696	0	1,137,632	1,137,632
Construction Tax	482,950	64,838	547,788	482,950	64,838	547,788
Quality of Life Tax	0	34,957,818	34,957,818	0	13,018,948	13,018,948
Permit & Impact Fees	2,300,000	540,300	2,840,300	2,300,000	540,300	2,840,300
Total Revenues	**$56,727,628**	**$120,901,760**	**$177,629,388**	**$28,872,464**	**$39,062,575**	**$67,935,039**
Percentage	31.9%	68.1%	100.0%	42.5%	57.5%	100.0%

Schedule based on terms defined in the Development Agreements and cash flows from Market Analysis prepared by Ernst & Young.

MAXIMUM SCENARIO - SUMMARY OF CITY TAX BENEFITS

PHASE I

	30 Year Total Cash Flow			Discounted Cash Flow - 7 %		
	Developer	City	Total	Developer	City	Total
Privilege Tax	$0	$21,436,457	$21,436,457	$0	$7,281,706	$7,281,706
Occupancy Tax	0	1,700,772	1,700,772	0	561,419	561,419
Construction Tax	0	130,107	130,107	0	130,107	130,107
Quality of Life Tax	0	5,816,834	5,816,834	0	1,993,308	1,993,308
Permit & Impact Fees	500,000	752,500	1,252,500	500,000	752,500	1,252,500
Total Phase I Revenues	$500,000	$29,836,670	$30,336,670	$500,000	$10,719,040	$11,219,040
Percentage	1.6%	98.4%	100.0%	4.5%	95.5%	100.0%

City is paid back it's $1.5 million developer incentive in present value dollars in 4 years.

PHASE II

	30 Year Total Cash Flow			Discounted Cash Flow - 7 %		
	Developer/Auto	City	Total	Developer/Auto	City	Total
Privilege Tax	$78,789,525	$128,003,667	$206,793,192	$40,573,032	$36,397,968	$76,971,000
Occupancy Tax	0	3,617,644	3,617,644	0	1,309,605	1,309,605
Construction Tax	700,000	100,499	800,499	700,000	100,499	800,499
Quality of Life Tax	0	52,802,834	52,802,834	0	19,770,276	19,770,276
Permit & Impact Fees	1,800,000	1,278,500	3,078,500	1,800,000	1,278,500	3,078,500
Impact for Retail Closure	0	(26,369,251)	(26,369,251)	0	(9,906,606)	(9,906,606)
Total Phase II Revenues	$81,289,526	$159,433,893	$240,723,418	$43,073,032	$48,950,243	$92,023,275
Percentage	33.8%	66.2%	100.0%	46.8%	53.2%	100.0%

City is paid back it's $4.8 million developer incentive in present value dollars in 3 years.

PHASES I & II

	30 Year Total Cash Flow			Discounted Cash Flow - 7 %		
	Developer/Auto	City	Total	Developer/Auto	City	Total
Privilege Tax	$78,789,525	$149,440,124	$228,229,649	$40,573,032	$43,679,674	$84,252,706
Occupancy Tax	0	5,318,416	5,318,416	0	1,871,024	1,871,024
Construction Tax	700,000	230,606	930,607	700,000	230,606	930,607
Quality of Life Tax	0	58,619,668	58,619,668	0	21,763,584	21,763,584
Permit & Impact Fees	2,300,000	2,031,000	4,331,000	2,300,000	2,031,000	4,331,000
Impact for Retail Closure	0	(26,369,251)	(26,369,251)	0	(9,906,606)	(9,906,606)
Total Revenues	$81,789,526	$189,270,563	$271,060,088	$43,573,032	$59,669,282	$103,242,315
Percentage	30.2%	69.8%	100.0%	42.2%	57.8%	100.0%

Schedule based on terms defined in the Development Agreements and cash flows from Market Analysis prepared by Ernst & Young.